

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6218**

**BILL NUMBER:** HB 1058

**NOTE PREPARED:** Dec 10, 2003

**BILL AMENDED:**

**SUBJECT:** Assessed Value Deduction for the Elderly.

**FIRST AUTHOR:** Rep. Frizzell

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:**    **GENERAL**  
                          **X DEDICATED**  
                          **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** This bill increases the assessed value deduction for persons who are at least 65 years of age from \$6,000 to \$12,000. The bill also increases the annual income limitation for purposes of determining eligibility for the deduction from \$25,000 to \$60,000.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:**

**Explanation of State Revenues:** Increased deductions from the gross assessed value of real property reduce contributions to the State Fair and State Forestry funds. These reductions are estimated to be about \$40,000 per year.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Current law provides for a property tax deduction of the lesser of \$6,000 or one-half of the assessed value of the taxpayer's real property, mobile home, or manufactured home for taxpayers who are at least 65 years of age if the assessed value is less than \$144,000 and the combined adjusted gross income of the taxpayer's household is less than \$25,000. This bill would increase the limit for maximum adjusted gross income from \$25,000 to \$60,000 and would increase the deduction to the lesser of \$12,000 or one-half of the assessed value of the taxpayer's real property, mobile home, or manufactured home.

The total value of this deduction for all Indiana counties for CY 2000 through CY 2003 is given in Table 1

below. The maximum deduction was increased from \$2,000 to \$6,000 in CY 2002 as a consequence of the change in assessed value from 33% of true tax value to 100% of true tax value. CY 2003 deductions are not yet available from most counties.

The number of deductions was estimated by dividing the gross value by \$2,000 for CY 2000 and CY 2001, and by \$6,000 for CY 2002. This slightly understates the number of deductions. The table includes data for the similar blind/disabled deduction since the CY 2001 state income tax data used to estimate the impact of this bill combines the two categories into a single exemption.

<b>Table 1 - Actual Age 65 and Blind/Disabled Total Deductions and Estimated Number of Deductions</b>					
<b>CY</b>	<b>Age 65 or Over</b>		<b>Blind or Disabled</b>		<b>Total</b>
	<b>Value</b>	<b>Estimated Number</b>	<b>Value</b>	<b>Estimated Number</b>	<b>Estimated Number</b>
<b>2000</b>	\$200 M	100,210	\$64.8 M	32,407	132,617
<b>2001</b>	\$203 M	101,655	\$65.5 M	32,773	134,428
<b>2002</b>	\$612 M	101,933	\$199 M	33,194	135,127

The increases in the total value of the over-65 property tax deduction as implemented in this bill were estimated by taking CY 2001 Indiana state income tax data and estimating the tax returns for CY 2004. The effects of the expected population increases, gross income increases, effects of reassessment, and increases in property taxes due to changes in the law and expected changes in the levy were included. The assessed value of a taxpayer's principal residence was estimated from a taxpayer's real property tax deduction in the DOR 2001 income tax data using statistical estimates based on pre-reassessment auditor's data. Since the maximum income tax deduction is \$2,500, the estimate of gross assessed value has an upper limit which is about \$230,000 in CY 2004. The estimates were then reduced by 25% (multiplied by 0.75) in order to estimate the number of over-65 deductions in CY 2004 since, on the average, over-65 deductions were 75% of the sum of over-65 and blind/disabled deductions in CY 2000 through CY 2002.

The CY 2004 estimates were then inflated by 0.0078% per year, the average increase from 1990 to 2000 for the number of Indiana residents age 65 or over (see note below). The estimates of the number and total value of the over-65 deductions under current law and under the provisions of this bill are contained in Table 2 below.

<b>Table 2 - Estimated Number and Total Value of Deductions</b>				
<b>CY</b>	<b>Current Law</b>		<b>This Bill</b>	
	<b>Estimated Total Over-65 Deductions</b>	<b>Estimated Total Value of Over-65 Deductions</b>	<b>Estimated Total Over-65 Deductions</b>	<b>Estimated Total Value of Over-65 Deductions</b>
<b>2004</b>	101,200	\$607 M	148,700	\$1.783 B
<b>2005</b>	102,000	\$612 M	149,800	\$1.797 B
<b>2006</b>	103,600	\$621 M	152,100	\$1.825 B
<b>2007</b>	106,000	\$636 M	155,700	\$1.868 B

Table 3 below provides estimates of the estimated deduction increases, net tax rate increases, and shift of property taxes from those qualifying for the over-65 deduction under the provisions of this bill. The increase

in the total value of the over-65 deduction under this bill is estimated to be \$1.176 B in CY 2004, increasing to \$1.232 B in CY 2007. The increase in the net tax rate resulting from the reduction in total net assessed value is expected to increase by 0.0115 in CY 2004; the increase will drop to 0.0107 in CY 2007. The tax shift from taxpayers claiming the deduction to those not claiming the deduction is estimated to be \$30.3 M in CY 2004, increasing to \$32.2 M in CY 2007.

<b>Table 3 - Estimated Deduction Increases, Net Tax Rate Increases, and Tax Shifts</b>			
	<b>Estimated Deduction Increase</b>	<b>Increase in Net Tax Rate</b>	<b>Tax Shift From Over-65 to Other Taxpayers</b>
<b>2004</b>	\$1.176 B	0.01145	\$30.3 M
<b>2005</b>	\$1.186 B	0.01131	\$31.0 M
<b>2006</b>	\$1.204 B	0.01127	\$31.9 M
<b>2007</b>	\$1.232 B	0.01072	\$32.2 M

Local government units with cumulative funds will have the revenue from property taxes reduced by reductions in the assessed value of real property, but the effect cannot be estimated.

*Estimation Note:* The number of persons over 65 residing in Indiana increased, on the average, at a rate of 0.7757% between the 1990 U.S. Census and the 2000 U.S. Census. The number of over-65 deductions from CY 2005 to CY 2007 was therefore assumed to increase at a rate of 0.7757% per year after CY 2004.

**State Agencies Affected:** State Fairgrounds; DNR Division of Forestry.

**Local Agencies Affected:** Local units with cumulative funds.

**Information Sources:** OFMA Income Tax Database, Tax Year 2001; OFMA Pre-Reassessment Property Tax Database.

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